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Research design

Title: The Political Economy of the Energy Sector: the cases of Azerbaijan, Nigeria and the Russian Federation

1. Theory/model What are you trying to explain?

1.1 Question to be researched: What are your empirical question or puzzle?

I would like to study how resource abundance and domination of a specific sector based on that resource in the economy shape the political economy of the specific country. There is a process of constant and complex interaction between such sector and the state and its institutions because this sector is the main contributor to the state budget. Because of such interaction, the state and its institutional capacities are altered which subsequently lead to the specific political democratization and economic transition path. My puzzle is how such one sector dominance is influencing the state capacities and thus economic and political transition path of the energy-exporters such as Russian Federation and Azerbaijan as transition countries compared to a pure case of the established energy-exporter such as Nigeria.

1.2 Historical/Economic/Political relevance: Why is this question/puzzle important to research?

Historical evidence show that resource-rich developing countries have performed markedly worse in terms of GDP development than resource-poor countries. From 1960-1990, the latter grew more than twice as fast as those more generously endowed by nature. This means that the transition resource-rich countries should experience more difficulties and hindrances to successful transition process. Energy revenues have increased public spending, but neither the poor nor the future (in terms of spending on health and education) have benefited. The rapid inflow of energy, mostly of oil revenues, seems to be strongly correlated with high levels of corruption.

1.3 Theoretical Relevance: What has been written on the question? What is "inadequate" that prompts researcher to research it?

The most widely used theoretical framework explaining the misgivings of the resource-rich countries is the Dutch disease phenomenon. This stems from the struggle of consecutive Dutch governments in coping with abundant natural gas-based revenues emerging in the earlier 60ies. The result was a lapse in fiscal discipline and a strong appreciation of the exchange rate leading to reduced competitiveness of the other parts of the economy. A negative spiral of economic deterioration followed as debt problems constrained future-oriented investments in human and physical capital. While still relevant, explanation of the misgivings of newly developing and transition countries demands a search beyond purely economic framework. The theoretical question has been already researched by Michael Shafer¹ who has shown how the leading sector of the economy influences the state and its institutions. Moreover, Terry Lynn Karl² has researched how commodity-led growth induces changes in prevailing notions of property rights, the relative power of pressure groups and organizations, and the role and character

¹ Shafer, D. Michael. *Winners and Losers: How Sectors shape the developmental prospects of States*. Ithaca, N. Y.: Cornell University Press. 1994.

² Terry Lynn Karl, *The Paradox of Plenty: Oil Booms and Petro-States*, University of California Press, 1997.

of the state vis-a-vis the market.

1.4 Proposed alternative theoretical solution: What are the causal claims are you interested in? What is the simplest model you can propose?

Independent variable - industrial structure of the economy in which energy sector dominates

Intervening variable - state and its institutions

Independent variable - economic transformation and political democratization

1.5 Theoretical significance of the research: Why do you like the model/ In what ways is your model superior to what existed in the field / how does it advance our knowledge of the problem that you analyze?

My future study is about understanding the flagrant contradiction between the natural resources abundance and the miserable social and economic conditions in most oil rich countries. How it can be that oil is not a blessing but a curse? What is it about petro-states that makes it so difficult to turn abundant natural resources into affluent societies. On the basis of an account of current trends and the underlying forces, I want to explore the scope for political choice, which is present in the state institutions. How strong are the forces that have tended to move emerging oil-rich states into laggards in the transformation process with the permanent threat of turning into dictatorial autocracies?

1.6 Historical / Policy significance of the research

What it would take to change course and transform petroleum resources into a dynamo for broad scale development of these societies? What is the scope of action of international community, including oil companies, donors and organizations like the IMF and the World Bank?

2. Methodology: How to explain? Or what evidence you marshal to prove your point

2.1 Research design

In my research strategy I will pursue the **most-dissimilar research design**. We have 3 very dissimilar cases which are similar in one dimension - they all three could be classified as the petro-states: two emerging petro-states (Russia and Azerbaijan) would be compared with the established one (Nigeria). The **objectives** of the research are to show the influence of the economic structures within a country on the state behaviour which could be benevolent/developmental or predatory.

The *major theoretical debate* to which the research aims to contribute deals with the impact of the structure on the agent, its institutional capacities which in turn influence the process of economic development and political democratisation. This means that the agents are the states. As for the structure, it is the resources, leading sector in the economy.

Much of the research on natural resource abundance and development emphasise phenomena like the Dutch disease and the failure of the economic policies to cope with them. While important on their own right, such approaches have clear limitations when applied to developing and transition economies as they fail to take account of underlying political and institutional factors. There is growing recognition of the importance of social and political capital, which includes civic spirit, political regime, legal system and ethical norms.

This wider aspect is even more pronounced in Terry Karl's study "Paradox of Plenty" (1997). While acknowledging the importance and explanatory power of Dutch disease, she emphasises the need to capture the underlying political and institutional process that

set off economic and market dynamism portrayed in economic models. In her view, commodity dependence "shapes not only social classes and regime types ... but also the very institutions of the state" which in turn has a profound impact on the economy³. In this complex interaction between economic forces, resource endowments and political institutions that make this subject matter so intriguing and so difficult to grasp. The term "institutional capital" as defined by Auty can be defined so widely as to encompass almost the entire society, hence losing much its analytical edge. Therefore, it is essential to focus the analytical framework on the basic functions of the state and the key relations between the state and the surrounding society: division of power within the state itself, the nature of state bureaucracy, the status of civil society, the locations of the centres of economic power in relation to political institutions.

2.2 Sample: countries and time period.

Countries: The Russian Federation, Azerbaijan, Nigeria.

Time period: Russia and Azerbaijan during the post-socialism transformation, Nigeria during the oil booms

2.3 Data and data sources

The data will be acquired by looking at the reports of different international financial institutions such as the IMF, the World Bank, and the European Bank for Reconstruction and Development. In addition, local data of the countries such as the state budget, different governmental policies and practices such as developmental long-, medium- and short-term plans will be assessed. Such local data gathering will also include the analysis of the local and international newspapers and magazines.

³ Terry Lynn Karl, *The Paradox of Plenty: Oil Booms and Petro-States*, University of California Press, 1997, p. 5.